FitchRatings

The Co-operative Bank p.l.c.

Key Rating Drivers

Shareholder Support Drives IDRs: The Co-operative Bank p.l.c.'s Issuer Default Ratings (IDRs) are driven by its Shareholder Support Rating (SSR) of 'bbb+'. The SSR reflects Fitch Ratings' assessment of a high likelihood of support for The Co-Operative Bank from its new, higher-rated owner, Coventry Building Society (A-/Negative). The Negative Outlook on The Co-operative Bank's Long-Term IDR mirrors that on Coventry.

High Propensity to Support: The SSR is one notch below Coventry's Long-Term IDR, reflecting The Co-operative Bank's strategic importance to its new owner as it adds scale and business diversification. It also reflects The Co-operative Bank's large relative size and the only limited integration planned in the near term.

The SSR also reflects Fitch's view that a default of the bank would create high reputational risk for Coventry, and that the UK authorities would favour support for The Co-operative Bank from Coventry. In addition, the combined group's resolution plan will make support for the subsidiary likely, as Fitch expects the group will ultimately operate under a single-point-of-entry model, with Coventry the resolution entity.

Role in Group; Gradual Integration: Our support assessment considers The Co-operative Bank to be strategically important, but not core, to Coventry, given a planned gradual integration, as well as its high operational and management independence.

Transformation Supports Business Model: The Co-operative Bank's completed mortgage and savings transformation project will support its cost efficiency. The stability of the business model is underpinned by the bank's focus on low-risk mortgage lending, but its franchise is modest and its business fairly undiversified.

Conservative Risk Profile: The Co-operative Bank primarily underwrites low-risk owner-occupied and buy-to-let residential mortgages, with a small share of unsecured retail and higher loan-to-value (LTV) lending. The average mortgage LTV in the mortgage portfolio remains low, and provides a buffer against potential moderate house-price falls.

Resilient Asset Quality: The Co-operative Bank's low impaired-loans ratio (end-2023: 0.8%) is supported by low-risk mortgage loans and conservative underwriting standards. We expect the ratio to rise to around 1% by end-2026, due mainly to the seasoning of loans originated in recent years with higher interest rates.

Cost Control to Support Profitability: The Co-operative Bank's operating profitability moderated in 2023 from a very strong level in 2022, but remains well above its four-year average. We forecast stronger operating profitability in 2025 and 2026, due to cost savings from transformation and restructuring, as well as structural hedge income.

Strong Capitalisation: We expect improved profitability to support the common equity Tier 1 (CET1) ratio (end-2023: 20.1%). Until the final resolution model is reached in May 2027, externally held eligible debt and Tier 2 instruments will be eligible to meet Coventry's consolidated minimum required eligible liabilities (MREL) requirements. Fitch expects this will allow the gradual migration of The Co-operative Bank's MREL debt to Coventry, where, over time, new MREL debt will be issued and down-streamed to the bank in a subordinated manner.

Stable Retail Funding: The bank is mainly funded by retail deposits, sourced from a fairly resilient core deposit base. Liquidity is healthy, and the bank has improved its access to wholesale markets with a covered bond issuance in 2024.

Ratings

Foreign Currency	
Long-Term IDR	BBB+
Short-Term IDR	F1
Viability Rating	bbb-
Shareholder Support Rating	bbb+
Sovereign Risk	
Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Fitch Upgrades The Co-operative Bank to 'BBB+'; Off Rating Watch Positive (January 2025)

Fitch Affirms Coventry Building Society at 'A-'; Outlook Negative (October 2024)

Coventry Acquisition of The Co-operative Bank Proceeding in Line with Fitch Base Case (November 2024)

Global Economic Outlook (December 2024)

Fitch Affirms United Kingdom at 'AA-'; Outlook Stable (September 2024)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of The Co-operative Bank's IDRs and SSR could stem from a downgrade of Coventry's Long-Term IDR, as well as from a diminished propensity or ability of Coventry to support the bank. The ability to provide support could weaken due to, for example, substantially higher integration costs than expected by the society. Fitch's view of Coventry's propensity to provide support could be negatively affected if The Co-operative Bank is no longer deemed to be strategically important to Coventry. This may be due, for example, to a change in strategy that leads to a discontinuation of integration efforts.

The VR could be downgraded following materially weaker-than-expected profitability or faster-than-planned growth that erode capital buffers, with no clear actions to swiftly restore them. Weak strategic execution exacerbated by intense competition could also put the VR under pressure.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The Co-operative Bank's IDRs and SSR could be upgraded if Coventry's Long-Term IDR is upgraded or if we revise up our assessment of Coventry's ability and propensity to support The Co-operative Bank.

An upgrade to the VR is unlikely, given The Co-operative Bank's narrow franchise. However, over the longer term, and with a successful integration into Coventry, The Co-operative Bank's VR could be upgraded if its operating profitability is sustained at strong levels without a loosening in risk appetite, while maintaining strong capital and liquidity buffers.

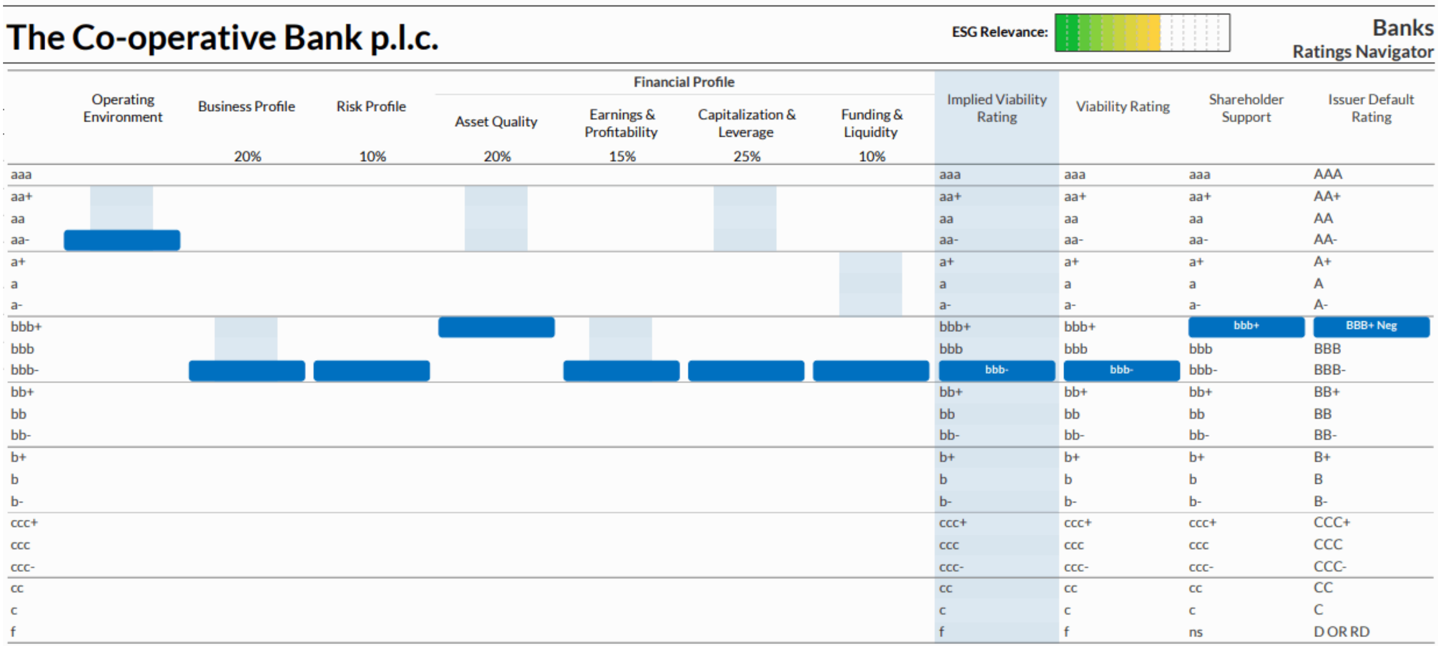
Other Debt and Issuer Ratings

Rating Level	Rating
Long-term deposit rating	A-
Short-term deposit rating	F1

Source: Fitch Ratings

The Co-operative Bank's long-term deposit rating is one notch above its Long-Term IDR. This reflects the additional protection of creditors arising from the requirement for Coventry to raise and downstream a large buffer of senior non-preferred and junior debt to The Co-operative subgroup over time. The Short-Term IDR is the higher of two options that map to an 'A-' long-term rating and reflects the propensity of shareholder support.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The asset quality score of 'bbb+' is below the 'aa' category implied score, due to the following adjustment reason: concentrations (negative).

The capitalisation and leverage score of 'bbb-' is below the 'aa' category implied score, due to the following adjustment reason: leverage and risk-weight calculation (negative).

The funding and liquidity score of 'bbb-' is below the 'a' category implied score, due to the following adjustment reason: deposit structure (negative).

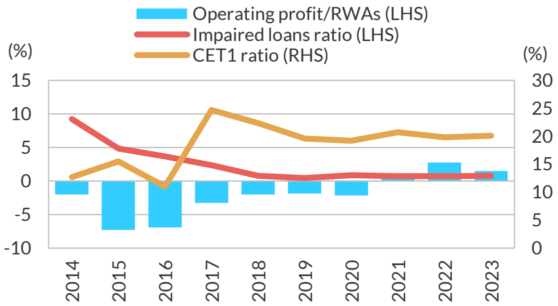
Company Summary and Key Qualitative Factors

Business Profile

The Co-operative Bank has completed a multi-year transformation and restructuring programme. The IT transformation project focused on the migration of mortgage and savings customers from various systems onto one mortgage and savings platform, reducing reliance on third-party providers. The restructuring has increased costs in recent years, but should lead to cost efficiencies within the next three years. The Co-operative Bank has continued increasing its strategic focus on higher-margin SME lending, with strong growth in this segment.

We do not expect the bank's acquisition by Coventry to have an immediate significant impact on The Co-operative Bank's business profile, because we believe it will operate as a separate business and be integrated gradually over multiple years.

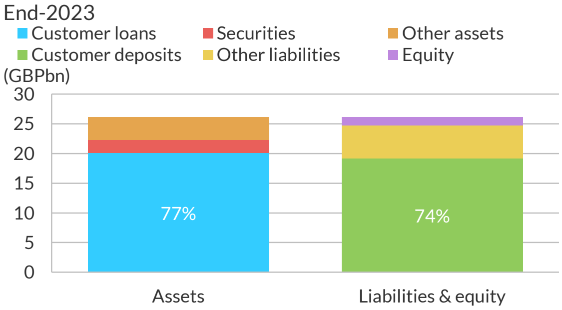
Performance Through the Cycle



Source: Fitch Ratings, Fitch Solutions, Co-operative Bank

Balance Sheet

End-2023



Source: Fitch Ratings, Fitch Solutions, Co-operative Bank

Risk Profile

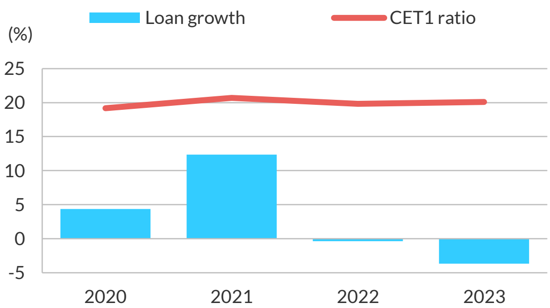
The bank has a conservative risk appetite, with underwriting standards broadly in line with industry averages. Mortgage lending accounted for 94% of the loan book at end-2023, and consists mainly of prime residential lending, with a low average LTV of 56% and just 2% with an LTV over 90%. Buy-to-let (BTL) mortgages form 7% of mortgage loans, are largely interest-only, and had an average LTV of 49% at end-2023.

The bank has reduced its unsecured retail lending (credit cards and agreed overdrafts), particularly after unsecured personal loans were stopped in 2018. Credit cards were only given to existing customers, but the bank has expanded this to new customers in 2023. SME lending is modest (2% of gross loans at end-2023), and the majority of loans are secured or government guaranteed loans (such as coronavirus business interruption loans and bounce-back loans).

Market risk consists mainly of interest-rate risk in the banking book, and is managed by a clear market-risk framework. The bank's structural hedge should help smooth the income profile through interest-rate movements. The removal of legacy systems supports the bank's risk profile, primarily through strengthened controls against cyber risk due to lower reliance on third-party providers.

A close alignment of The Co-operative Bank's lending policies and risk controls with Coventry's could support the risk profile assessment, although we do not expect this to happen fully in the near term.

Loan Growth



Source: Fitch Ratings, Fitch Solutions, Co-operative Bank

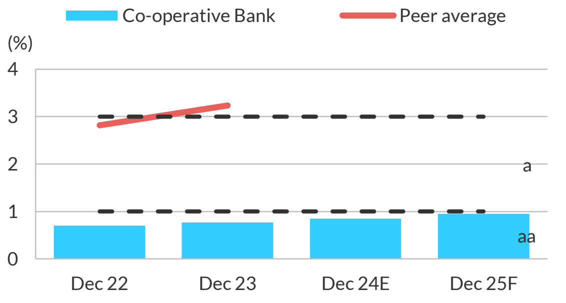
Financial Profile

Asset Quality

Credit risk primarily arises from retail lending in low-risk, low LTV mortgages. The level of mortgages accounts with over three months' arrears has slightly increased, but is still low. The SME portfolio's quality has stayed stable, despite rising interest rates. Legacy loans mainly consist of low-risk loans, which have seasoned over several years, and which are largely to housing associations.

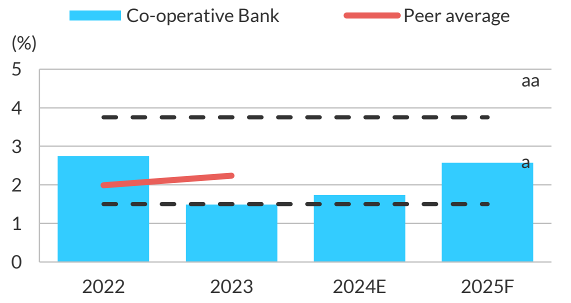
We forecast loan growth to primarily be in the target area of SME lending in 2025, whilst mortgage loan growth could be slow due to tight margins. Loan growth should pick up with lower interest rates in 2026, and as Coventry's strategy for the bank becomes clearer. We expect the impaired loans ratio to remain low, at about 1% until end-2025, due to the conservative underwriting and expected base rate cuts, with slight increases coming mainly from SME lending.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

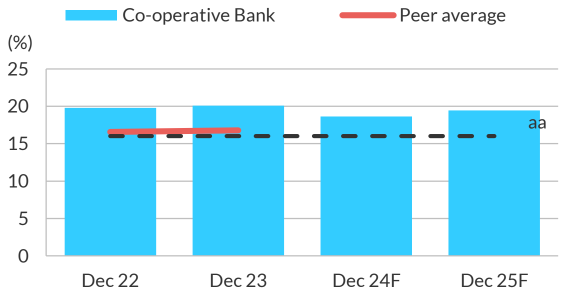
The Co-operative Bank's operating profit/risk-weighted assets ratio fell to 1.5% in 2023 (2022: 2.8%), due to transformation costs, legacy mortgage redress and exceptional project investment. We forecast the bank's net interest margin will increase in 2025 and 2026, primarily due to the bank's structural hedge and growth in higher-margin SME lending. We forecast costs to fall by about 5% a year over the next two years reflecting the anticipated efficiencies from the completion of the IT simplification programme and restructuring. We expect low impairment charges due to largely secured loan book and resilient asset quality.

Capitalisation and Leverage

The CET1 ratio has increased (end-2023: 20.1%) further above the regulatory minimum (14.3%). The leverage ratio (end-2023: 4.1%) is above the UK minimum requirement for leverage-constrained banks (3.25%), but below those of peers. The bank meets MREL requirements using total resources of GBP1.9 billion, with a surplus of GBP390 million at end-2023. The MREL ratio (38.7%) is made up of CET1 (end-2023: 20.1%), Tier 2 (4.9%) and MREL-qualifying junior debt (13.7%).

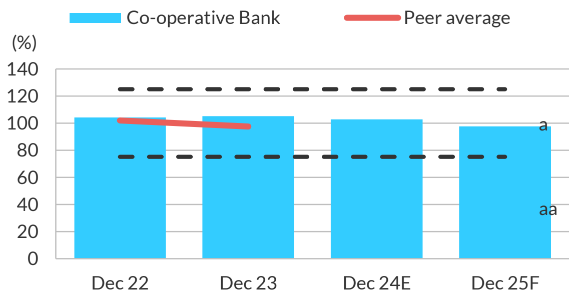
We expect the CET1 ratio to increase in 2025 and 2026 due to improved profitability and as earnings are retained. The Co-operative Bank anticipates an end-state pro-forma reduction of 3.5% for its CET1 ratio due to Basel 3.1 near-final rules, which we view as manageable considering the buffers. The bank has a target CET1 ratio of 15%–17%, but this could be reviewed following the acquisition by Coventry.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

The majority of the stable deposit base is from retail deposits (end-2023: 83%), followed by SMEs (17%). The cost of deposits has increased as interest rates have risen, but remains manageable, with lower-cost current accounts mitigating this pressure.

Term Funding Scheme with additional incentives for SMEs (TFSME) usage was high, at GBP5.2 billion, but the bank has repaid GBP2.1 billion, with GBP3.1 billion remaining at end-3Q24. We expect the bank to refinance the remaining amount with a mixture of wholesale funding issuances and deposit growth. The bank issued a GBP500 million covered bond for the first time in 13 years in 2024, to support TFSME refinancing.

The bank had GBP4.1 billion primary total liquidity resources at end-2023, primarily comprising cash at the Bank of England. In addition, the bank had a contingent liquidity capacity of GBP1.9 billion based on collateral pre-positioned at the Bank of England. The 12-month rolling average liquidity coverage ratio (end-2023: 211%) remains strong.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's *Bank Rating Criteria*. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent boundaries for indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category.

Peer average includes Metro Bank PLC (VR: b+), OSB GROUP PLC (bbb), Principality Building Society (bbb+), Banca Monte dei Paschi di Siena S.p.A. (bb+). Unless otherwise stated, financial year (FY) end is 31 December for all banks in this report.

Financials

Financial Statements

	31 Dec 2023		31 Dec 2022	31 Dec 2021	31 Dec 2020
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(GBPm)	(GBPm)	(GBPm)	(GBPm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	604	477.0	458.3	323.9	266.9
Net fees and commissions	46	36.4	31.8	25.2	23.5
Other operating income	5	4.1	21.6	29.2	24.9
Total operating income	655	517.5	511.7	378.3	315.3
Operating costs	564	445.5	372.7	346.1	395.4
Pre-impairment operating profit	91	72.0	139.0	32.2	-80.1
Loan and other impairment charges	1	0.6	6.4	1.1	21.6
Operating profit	90	71.4	132.6	31.1	-101.7
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	-2.0
Tax	-74	-58.3	110.5	-166.2	-8.0
Net income	164	129.7	22.1	197.3	-95.7
Other comprehensive income	-25	-19.7	-475.0	80.2	-41.8
Fitch comprehensive income	139	110.0	-452.9	277.5	-137.5
Summary balance sheet					
Assets					
Gross loans	25,559	20,186.8	20,531.5	21,039.5	18,725.4
- of which impaired	196	155.0	147.3	144.7	156.6
Loan loss allowances	47	37.4	40.3	37.4	42.9
Net loans	25,511	20,149.4	20,491.2	21,002.1	18,682.5
Interbank	269	212.6	387.1	191.5	536.2
Derivatives	391	309.1	520.1	158.0	324.0
Other securities and earning assets	2,662	2,102.6	955.9	1,226.1	1,172.5
Total earning assets	28,834	22,773.7	22,354.3	22,577.7	20,715.2
Cash and due from banks	3,429	2,708.3	5,270.4	5,696.9	3,877.8
Other assets	805	635.7	508.1	1,048.7	1,006.5
Total assets	33,068	26,117.7	28,132.8	29,323.3	25,599.5
Liabilities					
Customer deposits	24,328	19,215.2	20,107.4	21,135.9	20,365.8
Interbank and other short-term funding	366	288.9	483.4	327.6	2,066.4
Other long-term funding	6,193	4,891.2	6,028.8	5,805.4	1,137.0
Trading liabilities and derivatives	140	110.3	68.9	140.7	340.1
Total funding and derivatives	31,027	24,505.6	26,688.5	27,409.6	23,909.3
Other liabilities	257	203.2	145.3	161.8	215.8
Total equity	1,784	1,408.9	1,299.0	1,751.9	1,474.4
Total liabilities and equity	33,068	26,117.7	28,132.8	29,323.3	25,599.5
Exchange rate		USD1 = GBP0.789827	USD1 = GBP0.828638	USD1 = GBP0.74438	USD1 = GBP0.745156

Source: Fitch Ratings, Fitch Solutions, The Co-operative Bank

Key Ratios

	31 Dec 2023	31 Dec 2022	31 Dec 2021	31 Dec 2020
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.5	2.8	0.7	-2.2
Net interest income/average earning assets	2.1	2.0	1.5	1.3
Non-interest expense/gross revenue	86.1	72.8	91.5	125.4
Net income/average equity	9.5	1.4	12.2	-6.1
Asset quality				
Impaired loans ratio	0.8	0.7	0.7	0.8
Growth in gross loans	-1.7	-2.4	12.4	4.4
Loan loss allowances/impaired loans	24.1	27.4	25.9	27.4
Loan impairment charges/average gross loans	0.0	0.0	0.0	0.1
Capitalisation				
Common equity Tier 1 ratio	20.1	19.8	20.7	19.2
Tangible common equity/tangible assets	4.3	3.7	5.8	5.5
Basel leverage ratio	4.1	3.3	3.1	3.4
Net impaired loans/common equity Tier 1	12.2	11.2	11.8	12.6
Funding and liquidity				
Gross loans/customer deposits	105.1	102.1	99.5	92.0
Liquidity coverage ratio	211.4	265.3	241.8	193.4
Customer deposits/total non-equity funding	78.8	75.5	77.5	86.4
Net stable funding ratio	132.5	136.3	141.4	138.2

Source: Fitch Ratings, Fitch Solutions, The Co-operative Bank

Support Assessment

Shareholder Support	
Shareholder IDR	A-
Total Adjustments (notches)	-1
Shareholder Support Rating	bbb+
Shareholder ability to support	
Shareholder Rating	A-/ Negative
Shareholder regulation	Equalised
Relative size	2+ Notches
Country risks	Equalised
Shareholder propensity to support	
Role in group	1 Notch
Reputational risk	Equalised
Integration	1 Notch
Support record	1 Notch
Subsidiary performance and prospects	1 Notch
Legal commitments	2+ Notches

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

The Co-operative Bank's IDRs are driven by its SSR, which is in one-notch below Coventry's Long-Term IDR (A-/Negative). The Co-operative Bank's strategic role in the Coventry group is of higher importance, ultimately driving Fitch's support considerations. The Co-operative Bank is, in our view, is strategically important, but not core, to Coventry as long as integration remains low. The SSR also reflects Co-operative Bank's large size relative to Coventry (about 29% of combined pro-forma total assets). The Co-operative Bank is a strategic acquisition for Coventry, but we believe it will take time for the subsidiary to become an integral part of the group's business.

Environmental, Social and Governance Considerations

FitchRatings **The Co-operative Bank p.l.c.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

The Co-operative Bank p.l.c. has 5 ESG potential rating drivers

- The Co-operative Bank p.l.c. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.